



## *Report to the Auburn City Council*

Action Item 4
Agenda Item No.
City Manager's Approval <i>[Signature]</i>

**To:** Honorable Mayor and City Council Members  
**From:** Andy Heath, Administrative Services Director  
**Date:** January 11, 2010  
**Subject:** Results of Annual Audit – Fiscal Year 2008-09

### *The Issue*

Shall the City Council review and consider the Comprehensive Annual Financial Report prepared by the City's external auditors as it relates to the financial condition and fiscal management of City operations?

### *Action Requested*

Receive and file the Comprehensive Annual Financial Report for the City of Auburn for Fiscal Year 2008-09.

### *Background*

Pursuant to City Council Resolution 09-65, the City retained the firm of Gallina, LLP to perform an audit and prepare financial statements for the City of Auburn as of and for the year ended June 30, 2009. The external auditor's primary responsibility is to express an opinion on the financial statements based on the audit performed. Completion of an audit and accompanying financial statements is necessary to provide Auburn's citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the money it receives.

As a means to demonstrate the City's fiscal accountability, City staff has worked closely with Gallina over the last several months to complete the City's Comprehensive Annual Financial Report (CAFR). The CAFR provides a wealth of information for those interested in a local government's finances. In addition to the typical reporting sections found in a basic presentation of the financial reports, the CAFR includes a Transmittal Letter to the City Council, a comprehensive presentation of budget-to-actual comparisons for all budgeted funds, and an informative Statistical Section. Preparation of a CAFR better enables the financing community with which the City does business to assess the City's financial viability as it relates to current and future financing needs.

**Analysis**

The scope of work undertaken by the external auditors included the following:

- A report of the fair presentation of the City's financial statements in accordance with accounting principles generally accepted in the United States;
- A report on the City's internal control over financial reporting and tests of compliance with laws, regulations, contracts and grant agreement and any other matters deemed necessary and material;
- A report on the fair presentation of the financial statements in conformity with GAAP, including an opinion on the fair presentation of the supplementary schedule of federal awards "in relation to" the audited financial statements (Single Audit);
- A report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Governmental Auditing Standards;
- A report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133;
- Separate auditor's reports for the City of Auburn Urban Development Authority;
- A report on the City's compliance with Proposition 111, Article XIII B of the California State Constitution (Appropriations Limit);
- A management letter setting forth recommendations (as applicable) for improvements in the City's accounting practice.

The external auditor fieldwork was completed in September 2009, and the final reports were delivered to the City for review by staff in November and December 2009. Preparation of the final version of the CAFR also considered comments received from the Government Finance Officer's Association (GFOA) related to a review of the previous year's CAFR, which qualified for the GFOA's *Certificate of Achievement for Excellence in Financial Reporting*.

As a result of the audit conducted, the City has earned an "unqualified opinion" for its financials statements presented in the CAFR. As referenced in the Independent Auditor's Report on page 1 of the CAFR,

*"the financial statements...present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Auburn, California, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America".*

The CAFR is organized into three distinct sections:

- The Introductory Section familiarizes readers with the City of Auburn and includes a table of contents, the CAFR transmittal letter, a summary of elected officials, and the City's high-level organizational structure.
- The Financial Section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), audited basic financial statements, notes to the basic financial statements, and supplemental information including budgetary comparison schedules and fund-level financial statements. The audited basic financial statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, fiduciary and other funds.
- The Statistical Section contains seventeen schedules which provide information on the City's financial trends, revenue capacity, and debt capacity, along with demographic and economic information, and governmental operating information.

As a means to enhance the usefulness and understandability of the CAFR, the MD&A Section (starting on page 3) discusses the financial condition of the City in an abbreviated format, describing the results of City operations both literally and graphically.

#### Selected Financial Information – Fiscal Year 2008-09

Selected financial information is presented below. This information will be discussed during a brief presentation to the City Council on this item.

##### *General Fund*

- ✧ Total General Fund revenues and other financing sources decreased by approximately \$650,000 from FY 2007-08 to FY 2008-09. The decrease in General Fund revenues can be primarily attributed to:
  - A 19% decrease in sales tax revenue due to the severe economic downturn experienced in the local, regional and national economies.
  - A 31% decrease in building permit and other development-related revenues as a result of a continued slowdown in the housing sector and tightening credit markets.
  - An 11% decrease in Proposition 172 Public Safety Sales Tax revenue due to the severe economic downturn and its impact on statewide sales tax revenues; and
  - Flat growth in property tax and property tax related revenues due to minimal growth in citywide assessed valuation and decreased collections of supplemental property taxes.

- ✧ Total General Fund expenditures and other financing uses decreased by approximately \$580,000 from FY 2007-08 to FY 2008-09. The decrease can be primarily attributed to:
  - Implementation of budgetary costs savings measures including holding vacant unfilled positions in the Police and Administrative Services Departments; salary reductions for citywide management personnel; and reduction of departmental non-personal base budgets in response to declining General Fund revenues;
  - Increased allocations of staffing costs to special-funded capital projects appropriated in the Sewer, Transportation and Auburn Urban Development Authority funds; and
  - Implementation of a Fire Department reorganization plan resulting in increased resource availability while reducing budgeted costs.
- ✧ General Fund fund balances (reserves) decreased by approximately \$716,000 during FY 2008-09. As of June 30, 2009, General Fund fund balance (reserves) total \$3,413,122 and consist of the following:

Economic Contingency:	\$ 2,250,000
NCCSIF Insurance Reserve:	454,785
Undesignated Fund Balance	708,087
Imprest (Petty) Cash:	<u>250</u>
Total General Fund Reserves:	<u>\$3,413,122</u>

#### *Citywide*

- ✧ Combined net assets of the City's Airport and Sewer Enterprise operations increased by approximately \$1,150,000 during FY 2008-09.
  - Sewer Enterprise Fund net assets increased by approximately \$1,100,000, primarily due capital improvements including the Vintage Oaks Lift Station and Wastewater Treatment Facility Upgrade.
  - Airport Enterprise Fund net assets increased by approximately \$50,000, primarily due to the addition of the Airport Waterline Project.
  - As of June 30, 2009, the Sewer Fund accrual basis fund balance was \$4,578,000, while the Airport Fund accrual basis fund balance was (\$208,072).
- ✧ Major capital asset additions during FY 2008-09 include the following (discussed on page 16 of CAFR):
  - Auburn Airport East Hanger Project
  - Airport Waterline Project (to East Hangar Area)
  - Wastewater Treatment Facility Upgrade Design and Review
  - Vintage Oaks Sewer Lift Station

- East Lincoln Way and Maidu Sidewalk Improvements
  - Streetscape Project – Phase I Design and Review
- ✧ The Auburn Urban Development Authority successfully sold a \$4.8 million Tax Allocation Bond issue enabling the financing for a portion of the City's Streetscape Improvement Project.
- ✧ The City successfully negotiated 40-year lease agreement for three rows of hangar space with the Auburn Municipal Airport's East Hangar Project Area, with development anticipated to be completed during Fiscal Year 2009-10 or 2010-11.
- ✧ Total debt Citywide increased by approximately \$3.7 million, primarily as a result of the issuance of Tax Allocation Bonds for the Auburn Urban Development Authority offset by the retirement of recurring debt related to general and pension obligation bonds and capital leases and reduction of future costs associated with the closure of a City landfill.

### Management Report

As a supplement to the Financial Report and Audit Opinion, the external auditors will provide the City with a Management Report. The Management Report provides recommendations for improvements to internal controls determined during the course of conducting on-site fieldwork and/or preparing the financial statements. This report will be made available to the City Council once it is received by staff.

### Alternatives Available to Council; Implications of Alternatives

1. Receive and file Fiscal Year 2008-09 Comprehensive Annual Financial Report.
2. Direct staff to prepare additional supplemental and/or supporting material for City Council review.

### Fiscal Impact

None.

Attachments – City of Auburn Comprehensive Annual Financial Report as of June 30, 2009

### **NOTE:**

*A copy of the Comprehensive Annual Financial Report (CAFR) is available in City Clerk's Office for review. The CAFR is also available online at:*

<http://www.auburn.ca.gov/services/AdminServ/Docs/09AuburnGASB34AFS-FINAL.pdf>

